



Certified Public
Accountants

Elliott Advisory Group

Presents

Tax & Accounting Tips for Makers

The Importance of Tracking Income & Expenses

As a S/E individual, knowing:

- Your sales income
- If you're growing
- If you're making money
- If there are unnecessary expenses
- Areas for improvement

As a taxpayer:

- Reporting all income received – IRS matching
- Taking all allowed deductions to offset income
- Preparing for self-employment taxes @ 15.3%
- Having the financial information ready to file your taxes

Types of Income

- Sales Income
- Bank Interest Income - Not taxed at self-employment rate
- Grant Income – Not always taxable

Using Payment Applications Like CashApp, Paypal, Venmo, or Zelle?

New reporting requirement as of January 1, 2022

Payment app providers must issue a 1099-K for “good or service” transactions that equal \$600 or more *in the aggregate for the year*.

- Business accounts seem to be automatically tagged as good or service transactions.
- Personal accounts seem to be automatically tagged as a family/friend transactions.

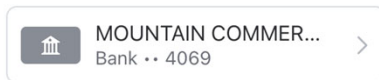
Legislation could change this back to the \$20k and 200 transactions rule.

Good/Service Or Family/Friend Payment?

Turn on for purchases



Get a **full refund** if an eligible purchase isn't what you paid for. Seller pays a small fee.



Send

Determines if the transaction is for a "Good or Service"

Type of transaction

Payments between friends

Not reported to IRS as income



Hulu

- \$7.65

Split

Share

Status

Complete

Payment method



Bank ••

Personal Checking

Transaction details

March 11, 2022, 2:36 AM · Private

Type of transaction

Purchase

Reported to IRS as income

Deductible Expenses

- Accounting & Legal Fees
- Advertising/Marketing
 - Billboards/Signs/Banners
 - Business Cards/Printed Material
 - Gifts/Flowers/Cards
- Bank Fees
- Business Insurance, if applicable
- Cell Phone, **Reasonable** Business Use %
- Dues & Licenses
 - License Renewals
 - Membership Dues
- Education/Training Fees
 - Course Materials
 - Registration Fees
 - Seminars/Training Classes
 - Travel – Lodging/Car Rental/Flights
- Equipment
 - Camera
 - Computer/Laptop/Accessories
 - Machinery
 - Printer/Copy/Fax Machine
 - Tools/Gadgets
- Health/Dental/Vision Insurance

Deductible Expenses *(Continued)*

- Interest Expense
- Internet - **Reasonable** Business Use %
- Materials/Supplies
- Meals – 100% deductible in 2022
 - Who/What/Where/When/Why
- Mileage OR Gas/Car Maintenance
 - **1/1/22-6/30/22** rate is \$0.585 per mile
 - **7/1/22-12/31/22** rate is \$0.625 per mile
 - Mileage Log/Apps
 - MileIQ (\$6 per month or \$60 annually)
 - Everlance (\$8 per month or \$60 annually)
 - TripLog (\$5 per month or \$60 annually)
 - Hurdlr (Free Version or \$8 per month for Full Version)
- Home Office Furniture - **Reasonable** Business Use %
- Home Office Supplies - **Reasonable** Business Use %
- Office Utilities (outside of home)
- Parking Fees
- Postage
- Rent/Lease Payments (Office/Vendor Space/Equip)
- Repairs & Maintenance
- Software Expenses
 - Accounting Software
 - Mileage Apps
 - Square/Stripe/Payment Apps

Tracking Income & Expenses

- Paper/Notebook
- Excel Worksheet
- Wave Accounting (free online option)
- Xero Accounting (\$13 per month)
- Quickbooks (multiple cost options)
 - Desktop version around \$400, annually
 - Online Self-Employed version \$15, per month

Excel Template Options

	2022
Income	
Necklaces	\$ -
Earrings	-
Bracelets	-
	-
Total Income	\$ -
Expenses	
Business Cards	\$ -
Camera	-
Marketing Expenses	-
Materials	-
Meals	-
Office Supplies	-
Software Expenses	-
Tools	-
	-
	-
Total Expenses	\$ -
Net Income	\$ -

Sales	Business Cards	Camera	Marketing	Materials	Meals	Office Supplies
\$ 100.00	\$ 100.00	\$ 349.00	\$ 75.00	\$ 15.00	\$ 15.00	\$ 10.00
200.00				150.00	11.00	5.00
350.00				100.00	35.00	18.00
400.00					18.00	12.00
250.00						
300.00						
\$ 1,600.00	\$ 100.00	\$ 349.00	\$ 75.00	\$ 265.00	\$ 79.00	\$ 45.00

Home Office Deduction

To Further Reduce Your Taxable Income

This tax deduction is allowed if you have a designated space in your home that is used for your business.

Home Expenses Used in Calculation:

- HOA Dues
- Home Insurance
- Home Rent or Mortgage Interest
- Lawn Care & Pest Control Fees
- Property Taxes
- Repairs & Maintenance
- Utilities (water, waste, electric)

Additional Information Needed:

1. Square Footage of Home Office
2. Square Footage of Entire Home

Home Office Deduction

Two Calculation Options

Simplified Calculation:

- Does not require total of annual home expenses
- Allows \$5 per square foot of office space
 - Maximum of 300 square feet

Example:

Home Office = 100 sq ft

Home Office Deduction = \$500 (100 * \$5)

Regular Calculation:

- Requires total of annual home expenses

Example:

Home Office = 100 sq ft

Home Total = 1000 sq ft

$100/1000 = 10\%$

Total Home Expenses = \$8,000


Home Office Deduction = \$800 (8,000 * 10%)

Becoming a Single Member LLC

- Potential liability coverage
- Are you truly an “entity”?
 - Point of view from a judge
 - Separate bank/credit card accounts
 - Maintaining financials
- Fees associated with a Single Member LLC
 - Attorney/legal formation fees
 - Annual Secretary of State filing
 - Annual TN Franchise & Excise Tax Return
 - Tax Preparation Fees
- Option of purchasing liability insurance

****We are not attorney's and suggest discussing this issue further with a legal professional****

Potential Tax Reduction Options

- Paying Your Child to Work
 - Qualified Business Income Deduction
 - Contribute to an HSA
 - Contribute to a SEP IRA
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Paying Your Child to Work

The Fair Labor Standards Act's minimum age requirements do not apply to minors employed by their parents or a person acting as their guardian.

Requirements:

- Documented job description
- Child must be able to perform the specified job requirements
- Proper timesheets
- Payments must be made to child

But wait, there are more rules!!



Paying Your Child to Work - *continued*

For a Sole Proprietor, Single Member LLC, or Partnership:

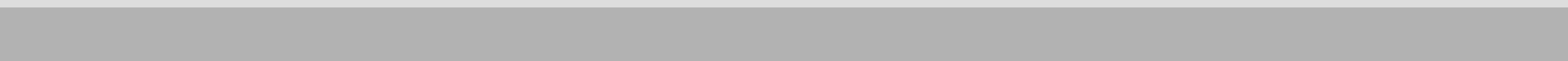
(must be wholly owned by only the child's parents)

- Payments to a child **under** age 18, as long as their total income is below the single standard deduction, are not subject to federal withholding, Social Security, or Medicare taxes.
- Payments to a child 18 years or older are subject to Social Security and Medicare taxes, regardless of how much they are paid – meaning quarterly payroll reporting is required.
- Contractor payments (1099) made to a child 18 years or older will be subject to self-employment taxes.
- Payments to a child **under** age 21 are not subject to Federal Unemployment Tax Act (FUTA). However, if the child is 21 years or older, payments are also subject to FUTA taxes.

Paying Your Child to Work - *continued*

C-Corporation, S-Corporation, or Partnership:

(where one partner is not the parent)

- Any payments to a child are subject to income tax withholding, Social Security tax, Medicare taxes, and FUTA taxes regardless of age. The child is subject to the same withholding rules that apply to all other employees.
 - Contractor payments (1099) made to a child 18 years or older will be subject to self-employment taxes.
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Qualified Business Income (QBI) Deduction

Tax deduction that allows eligible self-employed individuals to deduct up to 20% of qualified business income

Net Income	\$100,000
QBI	(20,000)
Taxable Income	\$80,000

2022 Phase Out Limits based on Taxable Income

- For Single Filers – starts at \$170,050 - \$220,050
- For MFJ Filers – starts at \$340,100 - \$440,100

HSA (Health Savings Account)

- Tax-advantaged way to save money & “prepay” for health-related expenses
- Reduce taxable income – dollar for dollar
- Investment growth in the account is tax-free
- Qualified withdrawals are tax-free

- Contribution limits for self-only vs family
 - \$3,650 / \$7,300 for 2022

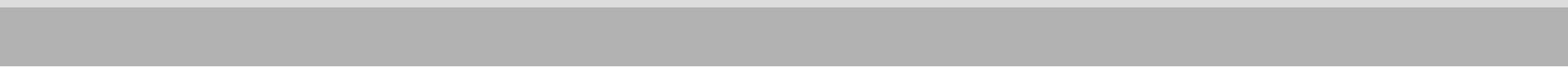
Contributions must be made by April 15th of the following tax year

Simplified Employee Pension (SEP) Contributions

- Self-employed individuals can contribute to a SEP retirement plan based on net self-employment income
- Can contribute up to 20% of self-employment income
- Contribution limits are \$61k for tax year 2022
- Contribution will reduce your federal tax owed
 - Your tax rate multiplied by the contribution amount equals the reduction in taxes owed ($\$61k \times 22\% \text{ tax rate} = \$13,420$)

Contributions can be made up to October 15th of the following tax year

Other Comments

- Increase in audits – in-person & desk
 - Keep up with mileage log
 - Keep proper documentation/receipts
 - Try to stay organized throughout the year so you aren't back tracking
 - Ask yourself – “Could I reasonably explain my expense deduction to an IRS Agent?”
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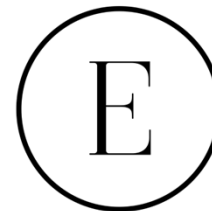
Comments or Questions? I'm here to help!



Nikki Elliott, CPA

Partner & CFO | Elliott Advisory Group

NElliott@eagcpas.com



Elliott Advisory Group, LLP

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